Translation from Bulgarian!

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
First Investment Bank

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2010, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of First Investment Bank AD as at 31 December 2010, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Bank prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the unconsolidated annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the unconsolidated financial information disclosed in the audited unconsolidated financial statements of the Bank as of and for the year ended 31 December 2010. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 28 February 2011.

Tzvetelinka Koleva
Authorized Representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 28 February 2011

FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2010
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Unconsolidated statement of comprehensive income for the year ended 31 December 2010

in BGN '000

	Note	2010	2009
Interest income		392,681	359,724
Interest expense and similar charges:		(258,930)	(234,823)
Net interest income	**6**	**133,751**	**124,901**
Fee and commission income		61,810	55,993
Fee and commission expense		(7,451)	(7,174)
Net fee and commission income	**7**	**54,359**	**48,819**
Net trading income	**8**	8,319	7,800
Other net operating income	**9**	4,551	600
TOTAL INCOME FROM BANKING OPERATIONS		**200,980**	**182,120**
Administrative expenses	10	(137,050)	(136,931)
Allowance for impairment	11	(25,666)	(8,615)
Other expenses, net		(3,982)	(291)
PROFIT BEFORE TAX		**34,282**	**36,283**
Income tax expense	**12**	**(3,444)**	**(4,262)**
NET PROFIT		**30,838**	**32,021**
Other comprehensive income for the period			
Revaluation reserve on available for sale investments		114	6,321
Total other comprehensive income		**114**	**6,321**
TOTAL COMPREHENSIVE INCOME		**30,952**	**38,342**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Tsvetelinka Koleva
Authorized Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 31 December 2010

in BGN '000

	Note	2010	2009
ASSETS			
Cash and balances with Central Banks	13	546,281	597,574
Financial assets held for trading	14	16,641	9,023
Available for sale investments	15	743,217	313,986
Financial assets held to maturity	16	38,207	30,018
Loans and advances to banks and other financial institutions	17	20,924	21,359
Loans and advances to customers	18	3,375,162	2,943,239
Property and equipment	19	124,909	127,683
Intangible assets	20	16,321	18,115
Other assets	22	62,421	34,281
TOTAL ASSETS		**4,944,083**	**4,095,278**
LIABILITIES AND CAPITAL			
Due to banks	23	9,509	6,863
Due to other customers	24	4,205,020	3,276,885
Liabilities evidenced by paper	25	133,804	232,326
Subordinated term debt	26	47,169	60,641
Perpetual debt	27	101,888	101,169
Deferred tax liability	21	3,143	1,881
Derivatives held for risk management		247	248
Other liabilities	28	3,539	6,453
TOTAL LIABILITIES		**4,504,319**	**3,686,466**
Issued share capital	30	110,000	110,000
Share premium	30	97,000	97,000
Statutory reserve	30	39,861	39,861
Revaluation reserve on available for sale investments	30	(32)	(146)
Retained earnings	30	192,935	162,097
SHAREHOLDERS' EQUITY		**439,764**	**408,812**
TOTAL LIABILITIES AND GROUP EQUITY		**4,944,083**	**4,095,278**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Tsvetelinka Koleva
Authorized Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of cash flows for the year ended 31 December 2010

		in BGN '000
	2010	**2009**
Net cash flow from operating activities		
Net profit	30,838	32,021
Adjustment for non-cash items		
Allowance for impairment	25,666	8,615
Depreciation and amortization	20,522	17,822
Income tax expense	3,444	4,262
Profit from sale and write-off of tangible and intangible fixed assets, net	(4,336)	(5,966)
	76,134	**56,754**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(7,618)	658
(Increase)/decrease in available for sale investments	(429,117)	841
(Increase) in loans and advances to banks and financial institutions	(421)	(17,701)
(Increase) in loans to customers	(457,589)	(3,300)
(Increase) in other assets	(28,140)	(5,156)
	(922,885)	**(24,658)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	2,646	(46,552)
Increase in amounts owed to other depositors	928,135	97,564
Net increase/(decrease) in other liabilities	(1,977)	437
	928,804	**51,449**
Income tax paid	(3,120)	(4,321)
NET CASH FLOW FROM OPERATING ACTIVITIES	**78,933**	**79,224**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(16,782)	(10,900)
Sale of tangible and intangible fixed assets	5,164	7,420
(Increase)/decrease of investments	(8,189)	30,375
NET CASH FLOW FROM INVESTING ACTIVITIES	**(19,807)**	**26,895**
Financing activities		
(Decrease) in borrowings	(111,275)	(250,588)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(111,275)**	**(250,588)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(52,149)**	**(144,469)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**601,038**	**745,507**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 32)	**548,889**	**601,038**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Tsvetelinka Koleva
Authorized Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of shareholders' equity for the year ended 31 December 2010

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
Balance as at 1 January 2009	**110,000**	**97,000**	**130,076**	**(6,467)**	**39,861**	**370,470**
Total comprehensive income for the period						
Net profit for the year ended 31 December 2009	-	-	32,021	-	-	32,021
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	6,321	-	6,321
Balance at 31 December 2009	**110,000**	**97,000**	**162,097**	**(146)**	**39,861**	**408,812**
Total comprehensive income for the period						
Net profit for 2010	-	-	30,838	-	-	30,838
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	114	-	114
Balance at 31 December 2010	**110,000**	**97,000**	**192,935**	**(32)**	**39,861**	**439,764**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

The financial statements were approved by the Managing Board on 28 February 2011 and signed on its behalf by:

Evgeni Lukanov
Executive Director

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Yanko Karakolev
Deputy Director
Finance and Accounting

Tsvetelinka Koleva
Authorized Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Notes

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by Bulgarian legislation.

The Bank has foreign operations in Cyprus.

Following the successful Initial Public Offering of new shares at the Bulgarian Stock Exchange – Sofia, on June 13th 2007 the Bank was registered as a public company in the Register of the Financial Supervision Commission pursuant to the provisions of the Law on the Public Offering of Securities.

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 (p).

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements.

Notes

2. Significant accounting policies

(a) Income recognition

(i) Interest Income

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Fee and Commission

Fee and commission income arises on financial services provided by the Bank and is recognised in profit or loss when the corresponding service is provided.

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading includes those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Bank.

(iv) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Translation differences on non-monetary items are included in other comprehensive income.

(iii) Foreign operations

The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

2. Significant accounting policies, continued

(d) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

***(i)* Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is assessed and monitored on the basis of its fair value. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Bank's right to receive payment is established.

(vii) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured

Notes

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank assesses the fair value of financial instruments using the following hierarchy of methods that reflects the importance of factors used to determine the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements based on market data either directly (i.e., as prices), or indirectly (i.e., derived from prices); This category includes quoted prices for instruments in an inactive market or instruments assessed by valuation techniques;
- Level 3: fair value measurements using inputs for the asset or liability that are not based on observable market data. In addition this level included capital investments in subsidiaries and other institutions related to the Bank's membership in certain organizations, stated at cost, for which there is no reliable market assessment.

The table below analyses financial instruments at fair value by valuation models.

in BGN '000

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	16,641	-	-	16,641
Available for sale investments	665,290	37,552	40,375	743,217
Derivatives for hedging	(247)	-	-	(247)
Total	**681,684**	**37,552**	**40,375**	**759,611**

in BGN '000

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	7,595	1,428	-	9,023
Available for sale investments	247,224	35,166	31,596	313,986
Derivatives for hedging	(248)	-	-	(248)
Total	**254,571**	**36,594**	**31,596**	**322,761**

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers these rights in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred to the buyer. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repo deals).

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank and short-term highly liquid investments with maturity of up to three months.

(f) Investments

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments

Notes

2. Significant accounting policies, continued

(g) Securities borrowing and lending business and repurchase transactions, continued

(ii) Repurchase agreements, continued

to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

(h) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective yield method.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment of Assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Loans and advances

Impairment loss on loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the interest rate for the loan is a floating interest rate, the loan is discounted at the current effective contractual interest rate. Short-term balances are not discounted. The calculation of the present value of estimated future cash flows reflects not only interest and principal payments, but also cash flows that may result from foreclosure less costs for obtaining and selling the collateral for a given exposure.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets.

Notes

2. Significant accounting policies, continued

(j) Impairment, continued

(i) Loans and advances, continued

General allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

(ii) Financial assets available-for-sale

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return.

When an asset remeasured to fair value through other comprehensive income is impaired, the decline in the fair value of the asset that had been previously recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event after the impairment loss recognition, the impairment loss is reversed and recognised in profit or loss.

(k) Property and equipment

Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and allowance for impairment.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The annual rates of amortisation are as follows:

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 33
• Fixtures and fittings	10 - 20
• Motor vehicles	10 - 20
• Leasehold Improvements	2 - 50

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

Notes

2. Significant accounting policies, continued

(l) Intangible assets

Intangible assets acquired by the Bank are stated at cost, less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	%
• Licences	10 - 20
• Computer software	8 - 33

(m) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and an reliable assessment of the amount due can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Bank agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Bank's acceptances primarily arise from documentary credits stipulating payment to be made a certain number of days after receipt of required documents. The Bank negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the statement of financial position date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies, continued

(p) Critical accounting estimates and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes

2. Significant accounting policies, continued

(q) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank's contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has an obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, § 3 of the Labor Code. According to these regulations in the LC, when a labor contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. Where the employee has been with the same employer for the past 10 years, this employee is entitled to a compensation amounting to six gross monthly salaries. As at balance sheet date, the Management of the Bank estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

Notes

2. Significant accounting policies, continued

(r) New standards and interpretations not applied earlier

A number of new standards, amendments to standards and interpretations effective for effective for annual periods beginning after 1 January 2010 have not been applied in preparing these financial statements. The Management considers that these future amendments will not have any impact on the Bank's financial statements.

Documents issued by IASB/IFRICs not yet endorsed by the European Commission

Management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which at the balance sheet date are already issued by the International Accounting Standards Board (IASB), but are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The effective dates for these will depend on the endorsement for adoption by the European Commission.

- IFRS 9 *Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010)* has an effective date 1 January 2013 and could change the classification and measurement of financial instruments. The extent of the potential impact has not been determined.

- Changes to IAS 7 *Financial Instruments*. Disclosures (issued October 2010) has an effective date 1 July 2011 – not expected to have a significant impact on the financial statements of the Bank.

- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012 – not expected to have a significant impact on the financial statements of the Bank.

- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012 – not expected to have a significant impact on the financial statements of the Bank.

- Improvements to IFRSs 2010 (issued April 2010), various effective dates, generally 1 January 2011 - not expected to have a significant impact on the financial statements of the Bank.

3. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Bank to provide customers with money market products at competitive prices.

The Bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

The Bank operates under conditions characteristic of a dynamically evolving global financial and economic crisis. The further deepening of this crisis may have a negative impact on the Bank's financial situation. The management of the Bank monitors on a daily basis all assets and liabilities, income and expense, and the situation on the international financial markets, applying best banking practices. On the basis of this the Management analyses profitability, capital base, liquidity and the cost of funding and applies adequate measures with respect to credit, market (mostly interest-rate) and liquidity risk, thus limiting the possible adverse effects of the global financial and economic crisis. The Bank thus meets the challenges of the market environment, retaining its stable capital and liquidity position.

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Bank assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Bank's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits for buying or selling instruments set by senior management.

In a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain

Notes

unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest VaR for all positions carried at fair value that was experienced in 2010:

	31 December	2010			31 December
in BGN '000	**2010**	**average**	**low**	**high**	**2009**
VaR	538	529	329	808	531

B. Non-trading activities

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2010

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	546,281	-	-	-	-	**546,281**
Financial assets held for trading	16,641	-	-	-		**16,641**
Available for sale investments	117,297	234,510	286,895	64,140	40,375	**743,217**
Financial assets held to maturity	5,393	1,391	-	31,423	-	**38,207**
Loans and advances to banks and other financial institutions	7,893	611	4,043	8,377	-	**20,924**
Loans and advances to	155,852	209,664	762,293	2,247,353	-	**3,375,162**
Total financial assets	**849,357**	**446,176**	**1,053,231**	**2,351,293**	**40,375**	**4,740,432**
Liabilities						
Due to banks	9,509	-	-	-	-	**9,509**
Due to other customers	1,320,551	805,689	951,820	1,126,960	-	**4,205,020**
Liabilities evidenced by paper	38,390	11,258	3,422	80,734	-	**133,804**
Subordinated term debt	-	-	-	47,169	-	**47,169**
Perpetual debt	-	-	-	-	101,888	**101,888**
Other financial liabilities	247	-	-	-	-	**247**
Total financial liabilities	**1,368,697**	**816,947**	**955,242**	**1,254,863**	**101,888**	**4,497,637**
Net liquidity gap	**(519,340)**	**(370,771)**	**97,989**	**1,096,430**	**(61,513)**	**242,795**

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2009

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	597,574	-	-	-	-	**597,574**
Financial assets held for trading	9,023	-	-	-	-	**9,023**
Available for sale investments	39,101	-	175,059	68,230	31,596	**313,986**
Financial assets held to maturity	-	15,097	-	14,921	-	**30,018**
Loans and advances to banks and other financial institutions	6,273	-	6,422	8,664	-	**21,359**
Loans and advances to	328,316	130,181	533,513	1,951,229	-	**2,943,239**
Total financial assets	**980,287**	**145,278**	**714,994**	**2,043,044**	**31,596**	**3,915,199**
Liabilities						
Due to banks	6,863	-	-	-	-	**6,863**
Due to other customers	1,184,508	817,901	1,223,758	50,718	-	**3,276,885**
Liabilities evidenced by paper	107,508	23,626	9,359	91,833	-	**232,326**
Subordinated term debt	-	-	-	60,641	-	**60,641**
Perpetual debt	-	-	-	-	101,169	**101,169**
Other financial liabilities	248	-	-	-	-	**248**
Total financial liabilities	**1,299,127**	**841,527**	**1,233,117**	**203,192**	**101,169**	**3,678,132**
Net liquidity gap	**(318,840)**	**(696,249)**	**(518,123)**	**1,839,852**	**(69,573)**	**237,067**

As at 31.12.10 the thirty largest non-bank depositors represent 4.60% of total deposits from other customers (2009: 6.43%). 6.43%).

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial liabilities of the Bank as at 31 December 2010 based on the contractual undiscounted cash flows.

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Total
Due to banks	9,509	-	-	-	**9,509**
Due to other customers	1,322,184	814,630	991,298	1,276,617	**4,404,729**
Liabilities evidenced by paper	38,443	11,322	3,494	88,911	**142,170**
Subordinated term debt	-	-	2,920	75,978	**78,898**
Perpetual debt	-	4,933	6,866	147,884	**159,683**
Other financial liabilities	247	-	-	-	**247**
Total financial liabilities	**1,370,383**	**830,885**	**1,004,578**	**1,589,390**	**4,795,236**

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2010 is BGN +3.7/-3.7 Mio. The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2010 is BGN +5.1/-5.1 Mio.

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2010 and the periods in which financial liabilities and assets reprice.

in BGN '000	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Fixed rate instruments** Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with Central Banks	54,004	0.24%	27,445	26,559	-	-	-
Financial assets held for trading	13,428	3.58%	-	-	-	-	13,428
Available for sale investments	702,842	0.89%	46,348	117,297	234,510	286,895	17,792
Financial assets held to maturity	38,207	4.82%	-	5,394	1,391	-	31,422
Loans and advances to banks and other financial institutions	18,337	5.24%	121	5,910		3,922	8,384
Loans and advances to	3,338,357	12.52%	2,902,999	70,563	23,685	134,047	207,063
Non-interest earning assets	778,908		-	-	-	-	-
Total assets	**4,944,083**		**2,976,913**	**225,723**	**259,586**	**424,864**	**278,089**
Liabilities							
Due to banks	9,509	0.18%	2,509	7,000	-	-	-
Due to other customers	4,204,032	5.65%	1,387,396	420,984	691,090	810,628	893,934
Liabilities evidenced by paper	133,804	3.33%	68,326	38,294	78	14	27,092
Subordinated term debt	47,169	15.15%	-	-	-	-	47,169
Perpetual debt	101,888	12.46%	-	-	-	-	101,888
Non-interest bearing liabilities	7,917		-	-	-	-	-
Total liabilities	**4,504,319**		**1,458,231**	**466,278**	**691,168**	**810,642**	**1,070,083**

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2009 and the periods in which financial liabilities and assets reprice.

in BGN '000	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Fixed rate instruments** Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with Central Banks	201,387	0.21%	31,868	169,519	-	-	-
Financial assets held for trading	5,862	5.74%	-	-	70	-	5,792
Available for sale investments	282,390	1.84%	40,542	39,101	-	175,059	27,688
Financial assets held to maturity	30,018	2.78%	-	-	15,097	-	14,921
Loans and advances to banks and other financial institutions	17,896	6.81%	6,423	2,809	-	-	8,664
Loans and advances to customers	2,924,085	13.04%	2,376,438	73,422	45,384	162,262	266,579
Non-interest earning assets	633,640	-	-	-	-	-	-
Total assets	**4,095,278**		**2,455,271**	**284,851**	**60,551**	**337,321**	**323,644**
Liabilities							
Due to banks	6,863	0.31%	1,863	5,000	-	-	-
Due to other customers	3,273,393	6.57%	1,072,221	363,716	706,102	1,111,299	20,055
Liabilities evidenced by paper	232,326	4.24%	79,181	106,920	14,591	3,371	28,263
Subordinated term debt	60,641	13.55%	-	-	-	-	60,641
Perpetual debt	101,169	12.47%	-	-	-	-	101,169
Non-interest bearing liabilities	12,074	-	-	-	-	-	-
Total liabilities	**3,686,466**		**1,153,265**	**475,636**	**720,693**	**1,114,670**	**210,128**

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank. These exposures were as follows:

in BGN '000	**2010**	**2009**
Monetary assets		
Euro	3,405,131	2,359,796
US dollar	379,669	260,568
Other	40,710	39,757
Gold bullion	6,603	7,509
Monetary liabilities		
Euro	2,458,966	1,991,653
US dollar	380,715	269,726
Other	40,385	38,442
Gold bullion	-	-
Net position		
Euro	946,165	368,143
US dollar	(1,046)	(9,158)
Other	325	1,315
Gold bullion	6,603	7,509

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Bank by failing to discharge an obligation. The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

Fibank
Първа инвестиционна банка

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2010 *in BGN '000*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,019,146	3,015,854
Individually impaired		
Watch	310,071	303,551
Nonperforming	25,369	21,948
Loss	116,775	33,809
Total	**3,471,361**	**3,375,162**

31 December 2009 *in BGN '000*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,688,376	2,685,705
Individually impaired		
Watch	204,636	201,899
Nonperforming	31,456	25,505
Loss	91,174	30,130
Total	**3,015,642**	**2,943,239**

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 31).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below:

in BGN '000	**2010**	**2009**
Trade	886,576	755,883
Industry	663,900	651,115
Services	232,960	169,786
Finance	37,683	21,024
Transport, logistics	253,646	155,753
Communications	37,952	31,493
Construction	161,971	138,604
Agriculture	73,802	71,075
Tourist services	134,041	106,161
Infrastructure	142,906	126,091
Private individuals	721,886	734,994
Other	124,038	53,663
Allowance for impairment	(96,199)	(72,403)
Total	**3,375,162**	**2,943,239**

The Bank has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2010 with total exposures amounting to BGN 78,336 thousand (2009: BGN 45,903 thousand) – ferrous and non-ferrous metals, BGN 68,850 thousand (2009: BGN 75,684 thousand) – mining and BGN 108,113 thousand (2009: BGN 105,139 thousand) – power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 18 individual clients or groups (2009: 13) with each individual exposure exceeding 10% of the capital base of the Bank. The total amount of these exposures is BGN 1,373,939 thousand which represents 284.54% of the capital base (2009: BGN 804,532 thousand which represented 174.33% of the capital base) of which BGN 1,150,431 thousand (2009: BGN 694,309 thousand) represent loans and BGN 223,508 thousand (2009: BGN 110,223 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 175,936 thousand (gross carrying amount before any allowances) (2009: BGN 147,095 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, plant and equipment, securities, or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 178,755 thousand (2009: BGN 158,124 thousand):

in BGN '000	**2010**	**2009**
Mortgage	1,452,763	1,373,154
Pledge of receivables	246,679	207,288
Pledge of commercial enterprise	443,798	433,880
Securities	130,044	68,904
Guarantee	7,127	4,159
Other guaranties	303,529	233,258
Pledge of goods	164,799	128,774
Pledge of machines	218,747	180,731
Money deposit	37,146	47,479
Stake in capital	29,013	28,006
Gold	18	18
Other collateral	225,980	127,958
Unsecured	32,963	23,909
Total	**3,292,606**	**2,857,518**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets and a minimum prescribed ratio of 6% of Tier 1 capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As the Bank holds insignificant trading book, the Bank does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

The Bank calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB.. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Bank calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

In addition, the Bank is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, audited current profit for the first six months after deductions for intangible assets and unrealized loss from available for sale financial instruments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base: qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Deductions from the Bank's capital base include the balance-sheet value of unconsolidated investments in subsidiaries and specific provisions for credit risk.

The Bank has complied with all externally imposed capital requirements throughout the period.

3. Risk management disclosures, continued
C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	Balance sheet/notional amount		Risk weighted assets	
	2010	**2009**	**2010**	**2009**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	1,077,364	529,322	2,552	2,657
Multirateral development banks	-	3,224	-	-
Institutions	122,539	263,477	37,333	64,633
Corporates	2,472,957	1,985,074	2,444,667	1,955,855
Retail	459,993	505,476	333,007	483,057
Claims secured by residential property	383,677	395,941	134,287	197,970
Overdue items	47,848	41,766	47,848	41,766
Collective investment undertaking	2,100	2,004	2,100	2,004
Other items	316,241	307,021	190,302	158,798
Total	**4,882,719**	**4,033,305**	**3,192,096**	**2,906,740**
Off balance sheet items				
Exposure class				
Central governments and central banks	851	-	-	-
Institutions	15,464	26,704	3,468	7,147
Corporates	465,959	489,955	187,035	207,150
Retail	194,927	189,369	1,029	1,094
Claims secured by residential property	4,109	4,640	708	1,142
Other items	-	-	13	15
Total	**681,310**	**710,668**	**192,253**	**216,548**
Derivatives				
Exposure class				
Institutions	830	311	166	62
Corporates	72	-	72	-
Total	**902**	**311**	**238**	**62**
Total risk-weighted assets for credit risk			**3,384,587**	**3,123,350**
Risk-weighted assets for market risk			**5,988**	**4,325**
Risk-weighted assets for operational risk			**345,650**	**317,838**
Total risk-weighted assets			**3,736,225**	**3,445,513**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2010	**2009**	**2010**	**2009**
Tier 1 Capital	**384,513**	**355,511**	**10.29%**	**10.32%**
Total capital base	**482,861**	**461,493**	**12.92%**	**13.39%**

Notes

4. Segment Reporting

Segment information is presented in respect of the Bank's geographical segments. The primary format, geographical segments, is based on the Bank's management and internal reporting structure.

Reporting and measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted on an arm's length basis.

The Bank operates principally in Bulgaria, but also has operations in Cyprus.

In presenting information on the basis of geographical segments, revenue and operating income is allocated based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated based on their geographical location.

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Interest income	374,447	342,142	18,234	17,582	392,681	359,724
Interest expense and similar charges:	(257,924)	(234,030)	(1,006)	(793)	(258,930)	(234,823)
Net interest income	**116,523**	**108,112**	**17,228**	**16,789**	**133,751**	**124,901**
Fee and commission income	61,371	55,454	439	539	61,810	55,993
Fee and commission expense	(7,439)	(7,165)	(12)	(9)	(7,451)	(7,174)
Net fee and commission income	**53,932**	**48,289**	**427**	**530**	**54,359**	**48,819**
Net trading income	**8,272**	**7,735**	**47**	**65**	**8,319**	**7,800**
Administrative expenses	**(136,543)**	**(136,395)**	**(507)**	**(536)**	**(137,050)**	**(136,931)**
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets	**4,723,097**	**3,911,037**	**220,986**	**184,250**	**4,944,083**	**4,095,287**
Liabilities	**4,484,892**	**3,631,376**	**19,427**	**55,090**	**4,504,319**	**3,686,466**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2010.

in BGN '000

Business	*Assets*	*Liabilities*	*Interest income*	*Interest expense and similar charges:*	*Net fee and commission income*	*Net trading income*	*Other net operating income*
Commercial banking	2,689,915	655,540	296,879	(27,670)	15,721	-	-
Retail Banking	685,247	3,549,480	87,590	(207,552)	5,180	-	-
International business	-	244,574	-	(23,661)	7,463	-	-
Card business	-	-	-	-	13,434	-	-
Liquidity ratio	1,321,682	47,796	8,212	(7)	9	943	449
Dealing	9,232	247	-	-	(105)	7,376	4,019
Customer service	-	-	-	-	12,138	-	-
Other	238,007	6,682	-	(40)	519	-	83
Total	**4,944,083**	**4,504,319**	**392,681**	**(258,930)**	**54,359**	**8,319**	**4,551**

5. Financial assets and liabilities
Accounting classification and fair values

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2010.

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	425,316	-	-	120,965	546,281	546,281
Financial assets held for trading	16,641	-	-	-	-	-	16,641	16,641
Available for sale investments	-	-	-	743,217	-	-	743,217	743,217
Financial assets held to maturity	-	38,207	-	-	-	-	38,207	38,054
Loans and advances to banks and other financial institutions	-	-	20,924	-	-	-	20,924	20,924
Loans and advances to customers	-	-	3,375,162	-	-	-	3,375,162	3,375,162
Total	**16,641**	**38,207**	**3,821,402**	**743,217**	**-**	**120,965**	**4,740,432**	**4,740,279**
LIABILITIES								
Due to banks	-	-	-	-	9,509	-	9,509	9,509
Due to other customers	-	-	-	-	4,205,020	-	4,205,020	4,205,020
Liabilities evidenced by paper	-	-	-	-	133,804	-	133,804	133,804
Subordinated term debt	-	-	-	-	47,169	-	47,169	47,169
Perpetual debt	-	-	-	-	101,888	-	101,888	101,888
Other financial liabilities	-	-	-	-	-	247	247	247
Total	**-**	**-**	**-**	**-**	**4,497,390**	**247**	**4,497,637**	**4,497,637**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of receivables from clients is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the loan portfolio is floating and reflects changes in market conditions. The fair value of liabilities evidenced by paper is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the long-term liabilities evidenced by paper is floating and reflects changes in market conditions.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2009.

in BGN '000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Other	Net book value	Fair value
ASSETS								
Cash and balances with Central Banks	-	-	456,389	-	-	141,185	597,574	597,574
Financial assets held for trading	9,023	-	-	-	-	-	9,023	9,023
Available for sale investments	-	-	-	313,986	-	-	313,986	313,986
Financial assets held to maturity	-	30,018	-	-	-	-	30,018	29,995
Loans and advances to banks and other financial institutions	-	-	21,359	-	-	-	21,359	21,359
Loans and advances to customers	-	-	2,943,239	-	-	-	2,943,239	2,943,239
Total	**9,023**	**30,018**	**3,420,987**	**313,986**	**-**	**141,185**	**3,915,199**	**3,915,176**
LIABILITIES								
Due to banks	-	-	-	-	6,863	-	6,863	6,863
Due to other customers	-	-	-	-	3,276,885	-	3,276,885	3,276,885
Liabilities evidenced by paper	-	-	-	-	232,326	-	232,326	232,326
Subordinated term debt	-	-	-	-	60,641	-	60,641	60,641
Perpetual debt	-	-	-	-	101,169	-	101,169	101,169
Other financial liabilities	-	-	-	-	-	248	248	248
Total	**-**	**-**	**-**	**-**	**3,677,884**	**248**	**3,678,132**	**3,678,132**

6. Net interest income

in BGN '000	**2010**	**2009**
Interest income		
Receivables and accounts with banks and financial institutions	1,328	1,797
Retail Banking	87,590	87,015
Loans to corporate clients	267,112	228,821
Loans to SMEs	25,825	28,708
Microlending	3,942	4,771
Debt instruments	6,884	8,612
	392,681	**359,724**
Interest expense and similar charges:		
Deposits from banks	(7)	(922)
Deposits from other customers	(235,222)	(196,458)
Liabilities evidenced by paper	(5,682)	(17,732)
Subordinated term debt	(5,884)	(7,252)
Perpetual debt	(12,095)	(12,071)
Lease agreements and other	(40)	(388)
	(258,930)	**(234,823)**
Net interest income	**133,751**	**124,901**

For 2010 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 31,302 thousand (2009: BGN 7,028 thousand).

7. Net fee and commission income

in BGN '000 **Fee and commission income**	**2010**	**2009**
Letters of credit and guarantees	6,181	6,305
Payments transactions	7,968	7,645
Customer accounts	13,620	8,808
Cards business	19,593	17,581
Other	14,448	15,654
	61,810	**55,993**
Fee and commission expense		
Letters of credit and guarantees	(288)	(606)
Deposits to banks and other financial institutions	(796)	(862)
Cards business	(6,159)	(5,641)
Other	(208)	(65)
	(7,451)	**(7,174)**
Net fee and commission income	**54,359**	**48,819**

8. Net trading income

in BGN '000	**2010**	**2009**
Net trading income/(expense) arises from:		
- Debt instruments	943	608
- Equities	30	(665)
- Foreign exchange rate fluctuations	7,346	7,857
Net trading income	**8,319**	**7,800**

9. Other net operating income

Other net operating income/(expense) includes profit/(loss| from sale of financial instruments, not assessed at fair value in profit or loss.

in BGN '000	**2010**	**2009**
Other net operating income/(expense) arising from:		
- Debt instruments	449	788
- Equities	4,016	-
- other	86	(188)
Other net operating income	**4,551**	**600**

10. Administrative expenses

in BGN '000	**2010**	**2009**
General and administrative expenses comprise:		
- Personnel cost	41,795	42,293
- Depreciation and amortisation	20,522	17,822
- Advertising	4,775	7,293
- Building rent expense	25,497	23,763
-Telecommunication, software and other computer maintenance	10,797	10,740
- Unclaimable VAT	9,764	9,607
- Administration, consultancy, audit and other costs	23,900	25,413
Administrative expenses	**137,050**	**136,931**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2010 the total number of employees was 2,547 (2009: 2,360).

11. Allowance for impairment

in BGN '000	**2010**	**2009**
Write-downs		
Loans and advances to customers	(36,830)	(33,628)
Available for sale investments	-	(3,038)
Reversal of write-downs		
Loans and advances to customers	11,164	28,051
Impairment, net	**(25,666)**	**(8,615)**

12. Income tax expense

in BGN '000	**2010**	**2009**
Current taxes	(2,182)	(4,062)
Deferred taxes (See Note 21)	(1,262)	(200)
Income tax expense	**(3,444)**	**(4,262)**

Reconciliation between tax expense and the accounting profit is as follows:

in BGN '000	**2010**	**2009**
Accounting profit before taxation	**34,282**	**36,283**
Corporate tax at applicable tax rate (10% for 2010 and 10% for 2009)	3,428	3,628
Tax effect of permanent tax differences	(1,246)	434
Tax effect of reversals of temporary differences	1,262	200
Income tax expense	**3,444**	**4,262**
Effective tax rate	10.05%	11.75%

Notes

13. Cash and balances with Central Banks

in BGN '000	**2010**	**2009**
Cash on hand		
- in BGN	85,316	97,144
- in foreign currency	35,649	44,041
Balances with Central Banks	374,325	257,689
Current accounts and amounts with local banks	7,000	4,092
Current accounts and amounts with foreign banks	43,991	194,608
Total	**546,281**	**597,574**

14. Financial assets held for trading

in BGN '000	**2010**	**2009**
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in Bulgarian Leva	3,898	2,638
- denominated in foreign currencies	7,574	-
Bulgarian banks assessed with BBB- rating	1,956	-
Foreign banks assessed with AAA rating	-	3,224
Other issuers – equity instruments (unrated)	3,213	3,161
Total	**16,641**	**9,023**

15. Available for sale investments

In thousands of BGN	**2010**	**2009**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	31,512	27,688
- denominated in foreign currencies	8,797	5,376
Foreign governments treasury bills	624,981	214,160
Foreign banks and other financial institutions	37,552	35,166
Other issuers – equity instruments	6,019	2,720
Investments in subsidiaries	34,356	28,876
Total	**743,217**	**313,986**

Investments in subsidiaries are as follows:
In thousands of BGN

Entity:	**% held**	**2010**	**2009**
First Investment Finance B.V., Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	94.79%	5,443	4,443
First Investment Bank − Albania Sh.a.	100%	21,464	20,486
Debita OOD	70%	105	-
Realtor OOD	51%	77	-
Health Insurance Fund Fi Health AD	57.10%	3,305	-
Framas Enterprises Limited	100%	15	-
Total		**34,356**	**28,876**

Notes

16. Financial assets held to maturity

Long-term securities held to maturity represent debt investments that the Bank has the intent and ability to hold to maturity.

in BGN '000	**2010**	**2009**
Securities held to maturity issued by:		
Bulgarian Government	29,371	21,833
Foreign banks and other financial institutions	8,836	8,185
Total	**38,207**	**30,018**

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**2010**	**2009**
Placements with banks	12,504	15,179
Receivables under resale agreements (see Note 29)	5,910	2,810
Other	2,510	3,370
Total	**20,924**	**21,359**

(b) Geographical analysis

in BGN '000	**2010**	**2009**
Domestic banks and financial institutions	6,189	3,491
Foreign banks and other financial institutions	14,735	17,868
Total	**20,924**	**21,359**

18. Loans and advances to customers

in BGN '000	**2010**	**2009**
Retail Banking		
- Consumer loans	196,054	208,118
- Mortgage loans	346,854	354,717
- Credit cards	178,755	158,124
Small and medium enterprises	207,045	204,647
Microlending	27,017	29,456
Corporate customers	2,515,636	2,060,580
Allowance for impairment	(96,199)	(72,403)
Total	**3,375,162**	**2,943,239**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2010	**72,403**
Additional allowances	36,830
Amounts released	(11,164)
Write - offs	(1,870)
Balance at 31 December 2010	**96,199**

19. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2009	12,367	93,990	5,989	59,652	38,180	210,178
Additions	-	4	-	10,896	-	10,900
Disposals	(1,538)	(4,464)	(281)	(27)	(315)	(6,625)
Transfers	-	12,739	7	(35,725)	8,733	(14,246)
At 31 December 2009	10,829	102,269	5,715	34,796	46,598	200,207
Additions	-	7	-	16,775	-	16,782
Disposals	(448)	(3,478)	(79)	(463)	(202)	(4,670)
Transfers	2,258	14,128	274	(26,440)	9,502	(278)
At 31 December 2010	12,639	112,926	5,910	24,668	55,898	212,041
Amortisation						
At 1 January 2009	3,603	44,030	3,600	-	9,935	61,168
Начислена през годината	378	12,500	846	-	2,803	16,527
On disposals	(571)	(4,030)	(255)	-	(315)	(5,171)
At 31 December 2009	3,410	52,500	4,191	-	12,423	72,524
Charge for the period	378	14,181	745	-	3,146	18,450
On disposals	(209)	(3,352)	(79)	-	(202)	(3,842)
At 31 December 2010	3,579	63,329	4,857	-	15,367	87,132
Net book value						
At 1 January 2009	**8,764**	**49,960**	**2,389**	**59,652**	**28,245**	**149,010**
At 31 December 2009	**7,419**	**49,769**	**1,524**	**34,796**	**34,175**	**127,683**
At 31 December 2010	**9,060**	**49,597**	**1,053**	**24,668**	**40,531**	**124,909**

20. Intangible assets

in BGN '000	Software and licences	Total
Cost		
At 1 January 2009	8,006	8,006
Additions	-	-
Disposals	(91)	(91)
Transfers	14,246	14,246
At 31 December 2009	22,161	22,161
Additions	-	-
Disposals	(745)	(745)
Transfers	278	278
At 31 December 2010	21,694	21,694
Amortisation		
At 1 January 2009	2,842	2,842
Начислена през годината	1,295	1,295
On disposals	(91)	(91)
At 31 December 2009	4,046	4,046
Charge for the period	2,072	2,072
On disposals	(745)	(745)
At 31 December 2010	5,373	5,373
Net book value		
At 1 January 2009	**5,164**	**5,164**
At 31 December 2009	**18,115**	**18,115**
At 31 December 2010	**16,321**	**16,321**

21. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax balances are attributable to the following items:

in BGN '000	**Assets**		**Liabilities**		**Net**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, equipment and intangibles	-	-	3,017	2,273	3,017	2,273
Other	(208)	(392)	334	-	126	(392)
Net tax (assets)/liabilities	**(208)**	**(392)**	**3,351**	**2,273**	**3,143**	**1,881**

Movements in temporary differences in 2010 at the amount of BGN 1,262 thousand are recognised in net profit for the period.

22. Other assets

in BGN '000	**2010**	**2009**
Deferred expense	9,833	4,158
Gold bullion	6,603	7,509
Other assets	45,985	22,614
Total	**62,421**	**34,281**

23. Due to banks

in BGN '000	**2010**	**2009**
Term deposits	7,000	5,000
Payable on demand	2,509	1,863
Total	**9,509**	**6,863**

24. Due to other customers

in BGN '000	2010	2009
Retail customers		
- payable on demand	458,776	312,678
- term deposits	3,090,704	2,356,030
Businesses and public institutions		
- payable on demand	263,168	278,983
- term deposits	392,372	329,194
Total	**4,205,020**	**3,276,885**

25. Liabilities evidenced by paper

in BGN '000	2010	2009
Acceptances under letters of credit	15,375	14,151
Liabilities under repurchase agreements (see Note 29)	38,287	124,255
Other term liabilities	80,142	93,920
Total	**133,804**	**232,326**

Other term liabilities comprise mainly financing obtained from financial institutions through extension of loan facilities.

26. Subordinated term debt

As at 31 December 2010 the Bank has entered into six separate subordinated Loan Agreements with four different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

in BGN '000

Lender	Principal amount	Final maturity	Maturity	Amortised cost as at 31 December 2010
Growth Management Limited	5,867	10 years	27.08.2014	13,163
Growth Management Limited	3,912	10 years	24.02.2015	6,980
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	9,397
Growth Management Limited	1,956	10 years	17.03.2015	3,441
ING Bank NV	9,779	10 years	22.04.2015	10,136
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	4,052
Total	**35,205**			**47,169**

The treatment of subordinated term debt for capital adequacy purposes as Tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

27. Perpetual debt

in BGN '000

	Principal amount	Amortized cost as at 31 December 2010
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	56,323
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,565
Total	**93,880**	**101,888**

The issue of the Step-Up Subordinated Bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by First Investment Bank AD was fully guaranteed by the Bank. The terms and conditions of the debt capital instruments fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in Tier 2 capital after respective Permissions by Bulgarian National Bank.

28. Other liabilities

in BGN '000	2010	2009
Liabilities to personnel	1,807	3,620
Current tax liability	1,003	1,009
Other payables	729	1,824
Total	**3,539**	**6,453**

29. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31 December 2010 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	1,938	1,970
Other government securities	38,303	36,317
Total	**40,241**	**38,287**

At 31 December 2009 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	25,944	26,993
Other government securities	97,069	97,262
Total	**123,013**	**124,255**

The Bank also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 31 December 2010 assets purchased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	5,863	5,910
Total	**5,863**	**5,910**

At 31 December 2009 assets purchased under repurchase agreements were as follows.

in BGN '000

	Fair value of underlying assets	**Carrying amount of liabilities**
Bulgarian government securities	2,945	2,810
Total	**2,945**	**2,810**

30. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2010

As at 31 December 2010 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All shares have been fully paid up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31.12.10 together with the number and percentage of total issued shares.

	Number of shares	**% of issued share capital**
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited, Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Notes

30. Capital and reserves, continued

(b) Shareholders, continued

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is oblidged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2010, as in the previous year, the Bank did not distribute dividends.

31. Commitments and contingent liabilities

(a) Contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in BGN '000	**2010**	**2009**
Guarantee		
- in BGN	102,650	165,731
- in foreign currency	215,838	182,348
Total guarantees	**318,488**	**348,079**
Unused credit lines	280,124	258,586
Promissory notes	8,093	14,295
Letters of credit	74,605	89,708
Total	**681,310**	**710,668**

These commitments and contingent liabilities have off balance-sheet credit risk and only organization fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the date of the report there are no other significant contingent liabilities and committments requiring additional disclosure.

At 31 December 2010 the extent of collateral held for guarantees and letters of credit is 100 percent.

32. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

Notes

in BGN '000	**2010**	**2009**
Cash and balances with Central Banks	546,281	597,574
Loans and advances to banks and financial institutions with original maturity less than 3 months	2,608	3,464
Total	**548,889**	**601,038**

33. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

in BGN '000	**2010**	**2009**
FINANCIAL ASSETS		
Cash and balances with Central Banks	581,789	557,620
Financial assets held for trading	12,164	15,444
Available for sale investments	563,003	336,507
Financial assets held to maturity	28,551	35,381
Loans and advances to banks and other financial institutions	22,636	25,488
Loans and advances to customers	3,129,658	2,979,290
FINANCIAL LIABILITIES		
Due to banks	3,433	27,951
Due to other customers	3,775,929	3,201,075
Liabilities evidenced by paper	164,734	347,161
Subordinated term debt	53,068	57,176
Perpetual debt	100,946	100,229

Notes

34. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control with the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**2010**	**2009**	**2010**	**2009**
Loans				
Loans outstanding at beginning of the period	2,130	2,455	29,310	21,081
Loans issued/(repaid) during the period	867	(325)	1,448	8,229
Loans outstanding at end of the period	2,997	2,130	30,758	29,310
Deposits and loans recieved:				
At beginning of the period	8,306	6,419	168,146	466,752
Received/(paid) during the period	(312)	1,887	(25,671)	(298,606)
At the end of the period	7,994	8,306	142,475	168,146
Deposits placed				
Deposits at beginning of the period	-	-	3,912	11,735
Deposits placed/(matured) during the year	-	-	10	(7,823)
Deposits at end of the period	-	-	3,922	3,912
Off-balance sheet commitments issued by the Bank				
At beginning of the period	2,280	1,475	13,149	5,953
Issued/(expired) during the period	(1,076)	805	(3,337)	7,196
At the end of the period	1,204	2,280	9,812	13,149

The key management personnel of the Bank received remuneration of BGN 2,602 thousand for 2010 (2009: BGN 2,780 thousand).

35. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

35. Subsidiaries, continued

Notes

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2010 the share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%.

(c) First Investment Bank − Albania Sh.a.

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2010 the share capital of First Investment Bank – Albania Sh.a. was EUR 10,975 thousand, fully paid up, and the Bank's shareholding is 100%.

(d) Debita OOD and Realtor OOD

Debita OOD and Realtor OOD, established jointly by the Bank and First Financial Brokerage House OOD, were registered in the Commercial Register on 11 January 2010. The capital of the two companies is BGN 150,000 each, distributed as follows:

1. Debita OOD - 70%, i.e. 105,000 shares for the Bank and 30%, i.e. 45,000 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 76,500 shares for the Bank and 49%, i.e. 73,500 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.

(e) Health Insurance Fund Fi Health AD

On 05 August 2010 the Bank acquired a 2% minority interest in "*Health Insurance Fund Prime Health" AD* and has the right, in a subsequent increase in equity, to subscribe for a number of shares making it a majority shareholder.

On 8 October 2010 the Bank increased its shareholding in "*Health Insurance Fund FI Health" AD* (formerly *"Health Insurance Fund Prime Health" AD*) subscribing to 2,755,000 ordinary shares with nominal value of 1 lev each from the capital of the health insurance fund. Following the capital increase First Investment Bank holds 2 855 000 ordinary shares with nominal value of 1 lev each, representing 57.1% of the capital of the fund.

(f) Framas Enterprises Limited

On 22 November 2010 the Bank acquired 10 000 shares representing 100% of the capital of „Framas Enterprises Limited", British Virgin Islands, with a view to performing auxiliary services within the meaning of Art. 2 (4) of the Law on Credit Institutions.

36. Post balance sheet events

(a) Increased shareholding in Health Insurance Fund Fi Health AD

On 18 January 2011 the Bank acquired 100 000 ordinary bearer voting shares, with nominal value of 1 lev each (temporary certificates in place of shares), constituting 2% of the capital of “Health Insurance Fund FI Health” AD. Following the acquisition First Investment Bank’s shareholding increased to 59,10%.

(b) Balkan Financial Services OOD

On February 7 First Investment Bank AD acquired 100 shares constituting 100% of the capital of Balkan Financial Services OOD for the amount of BGN 5000. Balkan Financial Services OOD is a company providing consultancy services on the implementation of financial information systems and software development.